

WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION

WASHINGTON, D. C.

ORDER NO. 1101

IN THE MATTER OF:

Served November 13, 1970

Application of Alexandria, )  
Barcroft and Washington )  
Transit Company for )  
Authority to Increase Fares )

Application No. 638  
Docket No. 221

APPEARANCES:

S. HARRISON KAHN, appearing on behalf of Alexandria, Barcroft and Washington Transit Company, applicant.

DAVID A. SUTHERLAND, appearing on behalf of the Mount Vernon Council of Citizens Associations, protestants.

JOHN F. O'NEILL, appearing on behalf of the Arlington County Civic Federation, protestants.

HAROLD O. MILLER, appearing on behalf of himself as a protestant.

JONATHAN P. Siner and EARLE PUTNAM, appearing on behalf of the Amalgamated Transit Union, AFL-CIO, and the Amalgamated Transit Union Local 1131, protestants.

DUANE L. SEARLES, appearing on behalf of the Board of Supervisors of Fairfax County, protestants.

ERNEST W. GROVE, appearing on behalf of himself as a protestant.

GRAHAM GUTHRIE, appearing on behalf of the County Board of Arlington County, protestants.

MANUEL J. DAVIS, appearing on behalf of the Washington, Virginia and Maryland Coach Company.

STEPHEN L. SHAREMAN, Assistant General Counsel, Washington Metropolitan Area Transit Commission.

BEFORE GEORGE A. AVERY, CHAIRMAN, WILLIAM O. DOUB, VICE CHAIRMAN, H. LESTER HOOKER, COMMISSIONER.

## THE PROCEDURAL BACKGROUND

On June 22, 1970, the Alexandria, Barcroft and Washington Transit Company (A. B. & W.) filed its WMATC Tariff No. 40, to supersede its WMATC Tariff No. 35, accompanied by supporting information as required by Commission Regulation 56-01 (c). The new tariff was to become effective July 26, 1970.

This Application, No. 638, sought to completely re-structure A. B. & W.'s interstate fare zones, consolidating the existing seven zones into four zones having more regular size and shape. The fare structure that A. B. & W. proposed to apply to the new zone system had the effect of increasing its passenger revenues by an estimated \$1,225,000 per year. The proposal would increase fares for more than 98% of A. B. & W. patrons, with increases ranging from five to twenty cents.

Order No. 1063, issued July 9, 1970, set public hearings on the new fares and fare zones, including consideration of a recent staff study of A. B. & W.'s zone structure made pursuant to Order No. 946.

Seven formal protestants were admitted as parties: the Mount Vernon Council of Citizens Associations; the Arlington County Civic Federation; Harold O. Miller, pro se; the Amalgamated Transit Union, AFL-CIO, and the Amalgamated Transit Union Local 1131; the Board of Supervisors of Fairfax County; Ernest W. Grove, pro se; and the County Board of Arlington County. The Washington, Virginia and Maryland Coach Company was also admitted as a party in interest.

Five sessions of formal hearings were held. A. B. & W. presented testimony by its Vice President and General Manager, its Traffic Manager, and its independent Certified Public Accountant, while evidence was offered by the staff from its Chief Engineer, its Chief Auditor, and its Urban Transportation Planner. In addition, testimony was given by the Chairman of the Mount Vernon Council's Transportation Committee, the co-Chairman of the Better Transit Now Committee, the International President of the Amalgamated Transit Union, Mr. Miller, Mr. Grove, and the Executive Assistant of the Arlington County Public Utilities Commission.

A special evening hearing was also held, attended by some sixty persons, in order to hear comments from interested members of the public. The official records of the proceeding included 1,117 pages of transcript and 111 exhibits for our consideration.

On July 24, 1970, we issued Order No. 1072, which suspended the proposed tariff's effective date for up to ninety days under Article XII, Section 6(a)(1) of the Compact. Not having reached a decision on the reasonableness of the tariff, by Order No. 1096 we further suspended its effectiveness until November 20, 1970.

## II

### THE QUALITY OF MANAGEMENT

The issues in dispute in this proceeding, while they raise some very basic questions, are quite limited in scope. As discussed in subsequent sections of this opinion, there are very few questions as to the financial results which the company can expect at existing fare levels or proposed fare levels. Thus, there are only a few questions of important scope as to allowable expenses or projected revenues which the Commission must resolve. Rather, the principal point in contention involves the adequacy of the company's management.

The argument is raised by the Mount Vernon Council of Citizens' Associations ("the Council") on the basis of Section 6(a)(3) of Article XII of the Compact. That section directs the Commission to give due consideration to the company's need for revenues "under honest, economical and efficient management." Even within this framework, the Council's attack is limited in scope. First, they disclaim any intention of raising questions as to the honesty of management. Second, their arguments as to economical and efficient operations do not, as we understand them, involve the company's conduct of the service which it is actually providing at present. Rather, the claim is made that the company is deficient in its efforts to maximize its ridership. It is urged that the company is not aggressive in providing new service to attract ridership and in marketing both its existing service and new service it might provide. With proper effort, argues the Council, the

company could obtain an 18% to 20% increase in ridership. It is claimed that the company has unused capacity of this amount at present and that the revenues produced by an increase of this magnitude would obviate the need for any increase in fares.

We have carefully considered the position urged by the Council and have concluded that we cannot adopt their position as a basis for our decision in this proceeding. In the final analysis, our conclusion is based on the judgment that there is no realistic prospect that the results envisaged by the Council could be achieved by any degree of effort on the part of A. B. & W.'s management. This is not to say either that we give unqualified endorsement to the quality of that management or that we find the Council's arguments totally lacking in merit.

Viewed on one level, A. B. & W.'s management does a creditable job. Almost every party to this proceeding, including the Governments of Arlington and Fairfax Counties, conceded that they conducted a desirable operation. However, we are not unaware --indeed, it was conceded by company counsel -- that it is a conservatively managed concern. They are cautious about service extensions and innovations and are not energetic in the marketing of their service. We think they could be more aggressive and we will embody certain directives in this order looking toward that end. However, we do not believe there is any reasonable prospect of results such as those suggested by the Council.

It is clear on this record that A. B. & W. has faced a declining patronage trend since 1967. However, the company is not alone in this trend, either in this geographic area or in the nation as a whole. All of the mass transit operators in Metropolitan Washington have faced the same declining trend since 1967. We have studied these conditions intensively and continuously. We are convinced that among their causes are (1) resistance to fare increases, (2) social conditions in the area, (3) the adverse impact of institution of the exact fare system, and (4) the generally disfavored public view of mass transportation by bus vis a vis the private automobile. These are tremendously strong adverse factors and we can find no basis for saying that they could be overcome to the extent claimed by the Council by efforts which lie within the reasonable powers of management.

We are not, in our judgment, dealing with a situation in which the company makes no effort whatever to bolster its ridership. The Council sought to paint this picture in its testimony but we do not accept the characterization. We should discuss, in this connection, the specific claims made by the Council. Their history goes back to previous rate proceedings. There, the Council sought new express service from the Mount Vernon area to the Pentagon and to the District of Columbia. After much discussion, consideration, and preparation, the service which they sought was instituted and is running to-day. At the hearings in this proceeding, the possibility of expansion of that service was suggested, but the Council made it clear that it was not proposing this until an origin and destination study undertaken by the Northern Virginia Transportation Commission, with the concurrence of this Commission, was completed and a report of its results provided. Hence, insofar as the actual provision of service to the Mount Vernon area is concerned, the company has provided what the Council sought.

In its testimony, the Council complained about certain aspects of the efforts to institute this service. We must frankly say that we are not impressed with their account. Naturally, some problems were encountered in making the changes involved and, equally naturally, not all the problems were worked out in precisely the manner desired by the Council. This, in our view, is simply a part of the complex problems of providing a viable mass transit operation. It does not indicate a lack of interest on the part of the company. The important thing, it seems to us, is that desirable new service has been made available to residents of the Mount Vernon area, an improvement for which the Council justly deserves credit.

Certain objectives of the Council have not been achieved. However, this was not the result of neglect or indifference. Thus, in Order No. 946, we directed the staff to explore the possibility of a faster route through Alexandria for buses coming from Mount Vernon. The possibilities were thoroughly explored but no improvement was found to be possible. Similarly, the possibility of priority access for buses at the 14th Street Bridge ramp was suggested and thoroughly explored. It appeared doubtful that regular police enforcement of such an arrangement could be obtained. Moreover, a study of running times for buses approaching this ramp indicated that the

time-savings which would be produced by a priority access arrangement would not be sufficient to justify a change.

The Council also argues that the failure to achieve the necessary increase in ridership can be ascribed in some measure to an alleged failure by the company to comply with past Commission orders. Thus, in 1967, we directed, in Order No. 703, that the company

"...undertake an active program of research and development, hiring the necessary personnel and engaging the necessary equipment, to revise its schedules, its routes, and its standard of service so that riding on this carrier is an attractive choice for its patrons and for the residents and workers in its service area."

The Council claims that this directive was never complied with. However, the company did, in fact, engage the services of an independent consulting firm to make a study of its routes and schedules. That consultant filed a report and certain changes in service resulted from that report.

We can sum up our view on the questions raised by the Council in these terms. We recognize that the company's research and development effort is not as vigorous and aggressive as might be desired. We have prodded, and will continue to prod, the company to be more aggressive in this field. Later in this order, for instance, we will discuss certain efforts at service improvement which we will require the company to undertake. However, we think it must fairly be recognized that the company does make bona fide efforts in this regard.<sup>1/</sup> In any event, we are certain that no level

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<sup>1/</sup> It is worth noting that the company is presently actively involved in the experiment providing express bus service on a reserved lane in Shirley Highway and that this experiment will expand dramatically in the next several months. This is perhaps the most exciting experimental program of bus ridership development in the country. We certainly cannot totally condemn the company's development efforts when such a program is in progress.

of research and development effort which could reasonably be expected would produce ridership increases of a magnitude which would obviate the need for a rate increase at this time.<sup>2/</sup> Hence, we will reject the proposal of the Council that we simply refuse a rate increase, and instead, direct the company to intensify its development efforts. We think the public would be ill-served by such an order.<sup>3/</sup> We turn, therefore, to an analysis of the financial data presented to us.

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<sup>2/</sup> This conclusion is borne out by the results of research and development projects by area companies and also by an extensive marketing test in the Pittsburgh Metropolitan Area, Advertising and Promotion Demonstration Program, U. S. Department of Transportation Project PA-MTD-7.

<sup>3/</sup> We think certain basic facts of economic reality must be recognized. The company clearly faces substantial increases in operating costs in the coming year simply to provide existing levels of service. Their new labor agreement alone adds \$757,497 in cost annually. On the other hand, only someone completely naive about the history of transit in this country would assume that an intensification of development effort would produce immediate and dramatic results. Hence, denying a rate increase in the face of rising expenses, and directing intensified development efforts which involve substantial additional costs, would be a sham which would harm both the riding public and the company's investors. Such action would not meet the public interest standards which must underly all of our actions.

### III

#### PROJECTED FINANCIAL RESULTS

Our financial analysis follows the pattern we have evolved for rate case determinations. We will examine the company's operating results for a post historical period, in this case, the twelve months ended March 31, 1970. Appropriate adjustments to these historical figures will be made in order to set forth projections of revenues and expenses in a future annual period. This will be done, first, at existing fares, then at proposed and authorized fares.

##### A. Historical Year Results

The historical year results are set out in Table I, below. They require no detailed discussion. These are the results embodied in Staff Exhibit No. 2. They differ slightly from the company's presentation because the staff made certain corrections and audit adjustments. The company accepted the staff changes and the historical results are as follows:

TABLE I

##### Operating Revenue:

Passenger Revenue	\$ 6,028,447
Charter and Sightseeing Revenue	624,221
Other Operating Revenue	<u>35,360</u>
Total Operating Revenue	<u>\$ 6,688,028</u>

##### Operating Revenue Deductions:

Operating Expenses	\$ 5,578,060
Depreciation Expense	481,708
Operating Taxes and Licenses	470,416
Operating Rents	75,600
Income Taxes	<u>6,803</u>

Total Operating Revenue Deductions	<u>\$ 6,612,587</u>
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Net Operating Income	<u>\$ 75,441</u>
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Operating Ratio	98.87%
Rate of Return on Operating Revenue	1.13%



B. Future Annual Period -- At Present Fares

There are some items of revenue and expense projections for the future annual period that require discussion. First, the staff made certain corrections in the figures presented by the company, the major items being corrections of errors in the company's computation of wages, fringe benefits and FICA taxes. In another significant adjustment, the staff normalized expenses to reflect the impact of a three-week strike during the historical period upon expenses actually incurred during that period. The net result of the staff adjustments was to increase projected expenses by \$91,661 over the figure set out by the company. Neither the company nor the other parties disagreed with the staff adjustments.

Certain other adjustments were suggested by protesting parties. First, Arlington County raises a question as to the projected expense for insurance and safety. Under the company's insurance policy, rates are based upon company revenues. Because a fare increase will raise those revenues, an upward adjustment in insurance expense is necessary. Arlington County suggests that this cost increase may not actually occur because, Arlington claims, insurance cost is based on the final analysis upon loss experience. Thus, it suggests that there may be refunds by the carrier after the premiums are collected. In support of this allegation, Arlington points to the fact that actual insurance cost for the historical period is less than the amount we projected for that period in the last A. B. & W. rate proceeding. The facts, however, do not support Arlington's analysis.

The company's policy makes no provision for retrospective adjustments in rates nor for refunds based on loss experience. When the company's loss experience is good, as it has been, rates are adjusted prospectively. Thus, in the present case, the insurance rate has been reduced from \$3.00 per \$100 of revenues to \$2.90. The company has consistently obtained such reductions in its insurance rate. We note that in Order No. 946, dated May 20, 1969, the insurance rate was \$3.21 per \$100. Thus, the company is obtaining the benefit of its good loss experience. However, that benefit, as previously mentioned, is in the form of prospective rate reductions.

It is true, as Arlington points out, that insurance expense in the historical period was less than we had projected

in the last rate case. However, this was not due to any refunds or retrospective adjustments. Rather, it was caused by the fact that revenues did not come up to the levels we had projected. Thus, the overestimate of insurance expense in that proceeding did not cause the ratepayer to provide revenues which ultimately proved to be unnecessary. The company simply did not obtain the total expected revenues and its insurance expense was thereby reduced. Thus, we could reduce the expense allowance here only if we concluded that our revenue estimates are faulty. We have made the best estimate possible, however, and we must stand upon it in computing insurance expense.

In attacking this expense, Arlington seems to suggest that we should base our allowance upon some other method of computing insurance premiums. However, the method chosen by the company is a widely recognized approach to setting insurance costs. The company is obtaining, on a prospective basis, the benefits of its favorable loss experience. We will not interfere with this exercise of management's judgment as to the best method of conducting its affairs.

Fairfax County has raised a question about the allowance for depreciation expense. The company depreciates its buses on a straight line, twelve-year life basis. We have approved this depreciation rate in the past because we have made clear to this company, as we have to all the mass transit operators that we regulate, that we are interested in maintaining a high quality fleet which is based upon a frequent replacement program. We have not, however, entered any specific directives requiring such a program by A. B. & W. as we have in the case of some other carriers. Rather, we have relied upon A. B. & W.'s representations that it is moving in the direction of a twelve-year replacement program. Testimony in this proceeding made it clear that the company was indeed committed to a program of bus replacement which would maintain, and even upgrade, fleet quality. However, it was also clear that this commitment did not include plans to purchase buses at any specific or fixed intervals. Rather, the management stated that it would make such purchases as were permitted by its general financial condition. Looking to its actual purchases we find that the company will acquire 16 new buses in December, 1970.<sup>4/</sup> Its last purchase was almost two years

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<sup>4/</sup> While not discussed in the record, we assume this date will be postponed due to the General Motors strike.

earlier, in January, 1969, when it bought 15 new buses. In 1968, the company acquired 10 new buses and one used bus. During 1967, however, the company purchased 23 new buses. We think it must be recognized, therefore, that, while the company's fleet is being upgraded at a rate which is both operationally acceptable and fiscally sound, it cannot fairly be said at this juncture that it is on, or approaching, a twelve-year replacement program. In view of the question raised by Fairfax County, therefore, we think that the company's depreciation allowance must be re-examined.

Reaching this conclusion raises some complex problems. If we are to determine a new depreciation rate for A. B. & W. based not on a 12-year replacement program, but on normal utility depreciation theories, we must undertake an examination of the service lives of A. B. & W.'s fleet. This involves a detailed examination of property records and other documents relating to the company's past history of bus retirements. On the basis of such an examination we would have to determine the appropriate service life and salvage value to be used in calculating annual depreciation expense. We believe we should provide adequate time for a thorough study of this problem before making a decision. On the other hand, it is clear that A. B. & W. is not meeting its expenses at present fare levels and requires prompt rate relief.

We believe that a means exists for dealing with the problems in a manner which is equitable both to the fare-payer and the company. We believe, first, that an immediate and tentative adjustment can be made in the depreciation rate. It seems clear to us that use of a 14-year life would clearly be justified. The present make-up of A. B. & W.'s own fleet suggests that this is the case. Moreover, we are fully aware that we require D. C. Transit to operate on a 14-year life basis. If it is possible for D. C. Transit to do so, it would seem equally possible for A. B. & W., whose fleet is made up of similar buses. Thus, as previously indicated, we will, for purposes of projecting revenues and expenses at authorized fares, utilize a 14-year life. However, we will also direct the company and the staff to embark immediately upon a service life study so that an empirically determined depreciation rate can be set. We will direct that this study be completed within 60 days. The change from a 12-year life to a 14-year life reduces A. B. & W.'s operating revenue deductions by \$53,146.

We have given careful consideration to the appropriate treatment to be given to this reduction in revenue requirement. It is too small an amount to give rise to a significant reduction in rates to any significant number of riders. This is particularly so in this case where one of our primary objectives is to achieve a revised zone and rate structure which not only meets the statutory standards of being just, reasonable and not unduly discriminatory, but also is rational, logical and easy to understand. Hence, we do not see the opportunity for reducing the rates sought by the company. On the other hand, we think that the dollars represented by the differences between the 12-year depreciation rate and the 14-year rate should be specifically employed by the company for the benefit of the riding public.

We heard much in this proceeding about the need for increased experimentation by the company in its routes and services. We have also heard about, and expressed our own concern with, the adequacy of the company's marketing and promotional efforts. We think that this adjustment in the depreciation rate provides a very useful opportunity to generate funds to be used in both these programs. Accordingly, we will direct the company to escrow \$4,428.83 per month to be used for these purposes.<sup>5/</sup>

At the time the depreciation study discussed above is completed, and the proper depreciation rate is determined, the possibility exists that the revenue requirement will be reduced still further. We will face the question as to the proper treatment of any such additional dollars at that time. It may be that actual rate reductions will then be possible. See in this connection our discussion at pp. 17 - 18. of possible modifications in interline fares. On the other hand, it may be that any additional dollars might best be used to support further service improvement efforts by the company. These considerations can all be determined when the proper depreciation rate has been thoroughly studied and determined by the Commission.

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<sup>5/</sup> This is one-twelfth of the difference in annual depreciation expense between a 12-year and a 14-year life.

It was suggested by one protestant that we should consider the possibility of increased revenues stemming from the program currently being worked out for the use of an exclusive bus lane on Shirley Highway all the way to the 14th Street Bridge, and beyond. We have considered this question carefully and have concluded that it is simply too early to give effect in a rate proceeding to the impact of this program. Very few, if any, of the major aspects of the company's participation in the program have been worked out in final form. To make judgments on the revenue impact at this juncture would be entirely too speculative. In any event, we are informed that questions involving this service will have to come before the Commission in formal terms at the appropriate time. We think the wisest course is to refrain from attempts at estimating the impact of the Shirley Highway program at this time and await further developments. As and if rate adjustments are necessary, the means exist for making them on a prompt and expeditious basis.

These, then, were the questions to be resolved with regard to the projections of revenues and expenses at present fares. Having made the adjustment discussed for depreciation expense, we find that the company will have the following operating results:

TABLE II

## Operating Revenue:

Passenger Revenue	\$ 6,425,603
Charter and Sightseeing Revenue	624,221
Other Operating Revenue	<u>28,782</u>
Total Operating Revenue	<u>\$ 7,078,606</u>

## Operating Revenue Deductions:

Operating Expenses	\$ 6,421,333
Depreciation Expense	371,109
Operating Taxes and Licenses	535,103
Operating Rents	75,600
Income Taxes	<u>-0-</u>

Total Operating Revenue Deductions \$ 7,403,145

Net Operating Income (Loss) (\$ 324,539)

Operating Ratio 104.58%  
Rate of Return on Operating Revenue (4.58%)

Unless fares are changed, therefore, the company faces the prospect of operating losses under its existing fare structure. We think that both the legal requirements of the Compact and considerations of the public interest require us, in these circumstances to adjust fares. See Order No. 1052, p. 27.

Before setting out results at authorized fares, problems of rate structure should be discussed.

## IV

## RATE STRUCTURE

In Order No. 946, we directed that a study be made of the A. B. & W. zone structure. As required in that order, the Commission staff undertook such a study and filed a report in October of 1969. We did not institute further proceedings on the study at that time, knowing that there was

the prospect of a rate proceeding in the then foreseeable future. Our directive in Order No. 946 also caused the company to study its zone structure and propose changes therein as part of its direct presentation in this proceeding.

We have no doubt that the present zone and fare structure can be improved. As pointed out by the staff, the distance travelled for a given fare varies considerably from zone to zone and route to route. In addition, the fare increments as zone boundaries are crossed are subject to undesirable variations. A number of specific examples were set out in the testimony but need not be detailed here. Hence, we start from the premise that revisions in the fare structure are desirable. We have two alternative suggestions before us.

The proposal evolved in the staff study is based on the premise that the most desirable structure would provide a large base fare to cover the relatively large fixed costs of operating a bus the first few miles, coupled with smaller incremental increases to cover additional operating costs as more miles are covered. Applying this principle, the staff proposed a series of concentric zones centering on the Federal Triangle. The first boundary was established three miles out from that point and each additional boundary was placed at two mile intervals. This resulted in seven zones. These theoretical zone lines were then translated into actual boundaries by application of certain principles: Existing zone lines were followed where possible to minimize confusion; communities of similar interest were taken into account; changes were set at points readily located by drivers and passengers.

The company proposal is based on most of the same assumptions and principles relied on by the staff. It encompasses the same first zone. However, instead of placing the further zone lines at two mile intervals, thus making seven zones, the company recommends that four mile intervals be used. This creates a four zone system. In establishing its zone boundaries the company used the same

geographical points as the staff, except, of course, that two of the staff zones are combined into one under the company proposal.

In its report of October, 1969, the staff characterized a structure of four mile zones, such as the company has now proposed, as running a very close second to its own proposal. In his testimony in September of 1970, when the staff study was placed in the record, the staff witness said that he found both proposals acceptable. The company's four zone proposal has the advantage of greater simplicity and ease of understanding. In addition, it is closely similar to the recently approved zone structure of W. V. & M. Coach Company. There is undoubtedly some advantage in thus correlating the fare structures for all Northern Virginia bus riders.

Some of the advantages which the staff saw in the seven zone approach, vis a vis the four, stemmed from the incremental fares. When the original study was made, the staff was proceeding on the basis of a thirty-five cent or forty cent base fare. Adding ten cent increments to base fares of that magnitude seemed undesirable. In his testimony, however, the staff witness stated that a ten cent increment on a fifty cent base, as now appears necessary in light of present revenue requirements, was much less troublesome. None of the other formal parties to the proceeding expressed opposition to adoption of the four zone system.

This, then, is the question presented to us for decision -- the choice between the seven zone or the four zone proposals. The choice is clearly a matter of judgment. There is no empirical method of reaching a decision on the matter. After weighing all of the testimony and exhibits carefully, we have opted for the four zone system. There seems to us to be real merit in both simplifying the zone structure and correlating it with that of W. V. & M. In so doing, we not only provide operating advantages for the carrier, we also provide a system which the public can understand and which creates a high degree of uniformity throughout the Northern Virginia area. Looking ahead to the major



impact upon public transportation of the rapid transit system now being constructed, we think this is the desirable objective.

The only disadvantage we discern is the lack of uniformity in the size of the increase which each rider will bear. Because of the shifts in zone boundaries increases will range from zero to twenty cents. However, this is an inevitable concomitant of a change in zone boundaries. This, of necessity causes increases of varying magnitude. We have felt for some time that the existing zone structure, which has been the result of historical growth, rather than rational planning, must be improved. Hence, we feel that this varying burden upon bus riders is one that can be justifiably asked of them.

Given the inevitable variations, we think the actual impact is acceptable. The maximum increase of twenty cents will be borne by only about 3% of interstate riders -- those living in the Landmark-Lincolnia area. It can be argued that, under existing fares, they have been paying less than other riders similarly situated. The great majority of riders will have increases of either ten cents or fifteen cents. We believe that the impact of this change in zones and fares is within acceptable limits.

Accordingly, we have determined to accept the company's four zone proposal, with a base fare of fifty cents and ten cent increments.

Two other rate structure problems require discussion. First, there is the staff proposal for adjustment in the interline fare. The present interline rate reduction is five cents. In other words, persons transferring to A. B. & W. who have purchased an interline ticket from another bus company receive a nickel reduction in the applicable A. B. & W. fare. Conversely, those who ride A. B. & W. and purchase an interline ticket receive a five cent reduction on the fare payable to the other company used. The staff has pointed out the growing potential for interline riding in light of recent transfers of Federal government agencies. Specifically, several thousand persons

who formerly worked for the Navy Department on Constitution Avenue in the District of Columbia have recently been transferred to Crystal City in Virginia. Recognizing this change in travel patterns the staff suggests that the interline fare should be reexamined. Their suggestion was that an interline rider pay fifteen cents over and above the applicable fare for the first company used for an interline ride. We are impressed with the validity of the points raised by the staff. On the other hand, we also think there is merit in the point made by counsel for A. B. & W. that the interline fare question is not a unilateral decision with the management of A. B. & W. Rather, it involves the interests of all the mass transit operators in the area. Therefore, we will issue an appropriate order directing all of the mass transit operators subject to our jurisdiction to undertake discussions immediately looking toward revision of the interline fare. They will be required to report to us within 60 days on the results of their efforts. We will expect a good-faith effort by them to work out an acceptable arrangement. If they do not do so we will exercise our powers pursuant to Section 7 of Article XII of the Compact to resolve the issue.

Finally, there is the question of reduced fares for the elderly. We have required (per Orders Nos. 1037, 1049, and 1052) the three other major regular route carriers in the Metropolitan District to survey senior citizen ridership patterns and propose an experimental off-peak reduced fare plan for those persons. At these hearings A. B. & W.'s General Manager stated that collection of information for the study of such a plan had already begun. Submission of a proposed interstate senior-citizen reduced fare experiment shall be required within an appropriate period of time. We will enter the same directives which we have set out in our other recent rate orders.

## V

### PROJECTED RESULTS - AT AUTHORIZED FARES

Having decided upon the fare structure, we can set out projected results at these fares. This is done in Table III

below. The revenues are taken from Staff Exhibit II and differ only to a very minor degree from the company's own projections. The expenses shown reflect the adjustments discussed at pp. 9-12 supra.

TABLE III

Operating Revenue:

Passenger Revenue	\$ 7,648,630
Charter and Sightseeing Revenue	624,221
Other Operating Revenue	<u>28,782</u>
Total Operating Revenue	<u>\$ 8,301,633</u>

Operating Revenue Deductions:

Operating Expenses	\$ 6,456,800
Depreciation Expense	371,109
Operating Taxes and Licenses	535,103
Operating Rents	75,600
Income Taxes	<u>399,212</u>
Total Operating Revenue Deductions	<u>\$ 7,837,824</u>

Net Operating Income	<u>\$ 463,809</u>
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Operating Ratio	94.41%
Rate of Return on Operating Revenue	5.59%

VI

RATE OF RETURN

As indicated in Table III, the increases here authorized will provide the company with net operating income of \$463,809. This provides a return on gross operating revenue of 5.59%. The company will incur interest expense in the future annual period of \$62,588, leaving \$401,221 in return to the stockholders. This is a return on equity of 17.72%. The return on rate base is 14.83%.

The return thus allowed is well within the range we have permitted this company in recent years. We set out the facts in this regard in Order No. 946 and will update that table here:

TABLE IV

WMATC ORDER NO.	DATE ISSUED	Fares Approved Were Estimated to Produce		
		OPERATING RATIO	NET OPERATING INCOME	RETURN ON GROSS OPERATING REVENUE
59	9/7/61	95.00%	\$ 225,000	5.00%
369	6/22/64	94.13%	\$ 321,109	5.87%
462	3/31/65	94.80%	\$ 296,346	5.10%
703	4/14/67	93.81%	\$ 412,109	6.19%
946	5/20/69	96.58%	\$ 245,096	3.42%
Present Case		94.41%	\$ 463,809	5.59%

The dividends declared by the company have remained within reasonable limits, ranging from \$37,000 to \$74,000 since 1965. We are not unaware that this company pursues a very careful and conservative policy in financing its equipment purchases, making substantial down payments. It has maintained its debt equity-ratio at 50%. We certainly take no exception to the company's policy in this regard and are aware that it requires a healthy growth in retained earnings. This need is accentuated in the present case by the fact that no such growth has been possible recently because of adverse operating results.<sup>6/</sup>

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<sup>6/</sup> We have, as previously noted, required that a portion of the return, attributable to the adjustment in depreciation expense, be escrowed for use in experimentation and marketing. See p. 12 supra.

Only one party questioned the magnitude of the return and the principal thrust of his argument was the fact that the dollar return here allowed is significantly greater than that permitted in the last A. B. & W. proceeding. However, we noted in that proceeding that the return we allowed was the lowest ever set by us for this company. As shown by Table IV, the amount here permitted is consistent with our past return determinations.

## VII

### SERVICE IMPROVEMENT

A number of areas in which service might be improved were discussed at both the formal hearings and at the evening session. We have examined each specific suggestion, and we believe that several warrant remedial action.

Several route alterations were proposed which would improve the convenience of A. B. & W.'s service. All of A. B. & W.'s existing trips terminating in the Southwest Employment Area cross Memorial Bridge and proceed along Constitution Avenue. These trips all originate on Route 7, and necessitate transfers for a majority of prospective patrons to the Southwest. This service could be made far more attractive by rerouting trips from each of A. B. & W.'s three major service corridors (Columbia Pike, Shirley Highway, and George Washington Memorial Parkway) directly over 14th Street Bridge and Independence Avenue into the Southwest. We shall require three such direct trips be operated in each corridor during peak periods. This will also improve service for the Department of Agriculture, in line with complaints from employees there.

Another argument made was that the trial of Route 2, the Kings Park - Springfield - Landmark shopper service was insufficient as it was interrupted by the November 1969 strike, and it was never adjusted to emerging ridership patterns. It was suggested that the service begin later and be extended through the P. M. rush hour into the evening, with the final trip leaving Landmark as close as possible to when that shopping center closes. Some minor route

adjustments were also proposed. It was apparent that much citizen effort had been expended in attempting to produce a viable bus service, and the strike and schedule problems may well have prevented a fair test of the shopper service. As presently envisaged, Route 2 would still not operate in the A. M. rush hour, the period of A. B. & W.'s peak equipment requirement. This would also provide later service from the District of Columbia, via transfer at Landmark, to patrons in A. B. & W.'s Routes 17 and 18 service areas. We shall therefore order a further 60-day test of the Route 2 with the changes suggested by local civic groups, to be inaugurated as soon as possible in order to serve Christmas shoppers.

Two other routing suggestions were made which bear further investigation. One was to relocate the Hunting Towers terminus at Belleview. This would extend more than twenty trips and might have serious cost implications. But although Belleview has generally adequate service at present, no direct service from Farragut Square extends to this area, and perhaps some adjustments could be made to alleviate this deficiency. Another suggestion was to extend trips serving Fort Belvoir farther into the base itself. We will require the company to examine both of these matters and report to the staff on the possibilities for improving rider convenience.

Finally, it was pointed out that the scheduling of Mt. Vernon to Crystal City service did not coincide with the current schedule of duty hours. This problem can and should be rectified.

The staff proposed that a system route map would be a worthwhile additional information aid, and the company management appeared receptive to that idea. Such a map would show the interrelationship of A. B. & W.'s routes, and be especially helpful to new residents in A. B. & W.'s service area. We shall therefore direct the company to produce such a map in consultation with the staff.

In fact, all the information distribution services of A. B. & W. were criticized, and could apparently be improved. It is essential for a transit operation that up-to-date

schedules be readily available, and that telephone information lines be sufficient in number and adequately staffed. A. B. & W. is presently separating its information services from its general business telephone numbers, and we will direct the staff to see that a wholly separate information number is established. We will also direct the staff to monitor and report to us on A. B. & W.'s schedule distribution, in particular to insure that buses have schedules aboard for the routes which they are serving.

#### FINDINGS OF FACT

We have stated our findings of fact on the issues in the proceeding in our discussion hereinbefore.

#### CONCLUSIONS OF LAW

The Commission concludes as a matter of law:

1. That the present fare structure of applicant is unjust and unreasonable in that it will not produce sufficient revenues in the future to enable the carrier to meet operating expenses and earn a reasonable return.

2. That the Commission under the applicable law, including the Compact, is required to prescribe a lawful fare whenever existing fares are found to be unjust and unreasonable.

3. That the fares proposed by applicant are just and reasonable. The fare structure proposed is not unduly preferential nor unduly discriminatory either between riders or sections of the service area of the carrier.

4. That the fares authorized by this order are necessary to enable this carrier, under honest, economical, and efficient management, to provide an adequate and efficient transportation service. They provide the means whereby this carrier may provide an adequate and efficient transportation service at the lowest cost consistent with the furnishing of such service, while affording it the opportunity of earning that return which we have found is necessary to make it an attractive investment to private investors.

THEREFORE, IT IS ORDERED:

1. That the Alexandria, Barcroft and Washington Transit Company WMATC Tariff No. 40, cancelling WMATC Tariff No. 35, be, and it is hereby, effective as of 12:01 A. M., November 21, 1970.

2. That paragraph 4 on page 5 of Tariff No. 40, as submitted by Application No. 638, be stricken from that tariff prior to its effective date.

3. That A. B. & W., in conjunction with the staff, conduct a study of the factors which affect its depreciation rate, including service life and salvage value of its fleet, and its future projections for these factors, to be submitted to us within sixty (60) days of the date of this order.

4. That A. B. & W. place \$4,428.83 per month for 12 successive months, in a special fund, to be expended solely for marketing or promotion activities as described in this order, p. 12.

5. That A. B. & W. survey interstate senior citizen ridership patterns during off-peak hours to determine to what extent such persons presently ride during those times.

6. That within ninety (90) days of the date of this order, A. B. & W. file with the Commission a proposal for instituting a reduced off-peak interstate fare for senior citizens on an experimental basis, provided, however, that such plan need not be filed if the company has not operated at a profit during that time.

7. That within thirty (30) days of the date of this order, A. B. & W. shall submit in proper form, application for route authority to run direct service to and from the Southwest Employment Area via each of its three major service corridors; and that it schedule three such direct trips to be operated in each corridor during peak periods.

8. That, commencing November 23, 1970, A. B. & W. conduct a sixty (60) day test of Route 2 Kings Park - Springfield - Landmark service incorporating the route and schedule changes recommended in these proceedings.



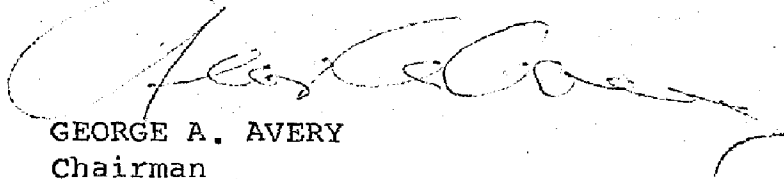
9. That A. B. & W. examine the feasibility of (1) extending service presently terminating at Hunting Towers to Belleview, and of (2) extending service to Fort Belvoir farther in to the base itself. A report on its findings and recommendations shall be submitted to the staff within ninety (90) days of the date of this order.

10. That the Commission staff report within ninety (90) days of the date of this order on A. B. & W.'s performance in having available appropriate timetables in vehicles, and in obtaining a separate telephone number for passenger information.

11. That within one hundred twenty (120) days from the date of this order, A. B. & W., after consultation with the staff, publish a system-wide route map.

12. That the Washington, Virginia and Maryland Coach Company be, and it is hereby, required to charge full fare for all of its zone one patrons.

BY DIRECTION OF THE COMMISSION:



GEORGE A. AVERY  
Chairman

HOOVER, COMMISSIONER, DISSENTING: I must dissent from Items Number Five and Six of the Order. The State Corporation Commission of Virginia will not permit the proposal for a reduced fare for senior citizens to be placed in its decision relative to intrastate operations; consequently, if approved, it would in my judgment be impossible to enforce, and is against the interest of the daily riders of the A. B. & W. Transit Company because they would be paying for the reduction in fares made available to the senior citizens. If and when the courts may hold this to be legal, the State Corporation Commission will be glad to give further consideration to it.

## A. B. &amp; W. TRANSIT COMPANY

<u>Present Zone</u>	<u>Proposed Zone</u>	<u>Present Fare</u>	Va. State Corpora- tion Commission -	
			<u>WMATC-Authorized Fares (Interstate)</u>	<u>Authorized Fares (Intrastate)</u>
1	1	.35)	.50	.40
2		.45)		
2	2	.45)	.60	.50
3		.50)		
4		.55)		
3	3	.50)	.70	.60
3		.55)		
5		.60)		
6		.65)		
7		.70)		
6	4	.65)	.80	.70
7		.70)		
8		.75)		
Lorton-Occoquan		1.10)	1.25	-
<u>HALF FARES</u>				
1	1	.20)	.25	.20
2		.25)		
2	2	.25)	.30	.25
3		.25)		
4		.30)		
3	3	.25)	.35	.30
4		.30)		
5		.30)		
6		.35)		
7		.35)		
6	4	.35)	.40	.35
7		.35)		
8		.40)		
Lorton-Occoquan		.55)	.65	-